



# U.S.-Vietnam Relations in 2010: Current Issues and Implications for U.S. Policy

**Mark E. Manyin**  
Specialist in Asian Affairs

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## Summary

After communist North Vietnam's victory over U.S.-backed South Vietnam in 1975, U.S.-Vietnam had minimal relations until the mid-1990s. Normal diplomatic relations were established on July 11, 1995. Since then, bilateral ties have expanded to the point where leaders on both sides describe each other as partners on a number of issues. The maturation of relations has been particularly marked since the mid-2000s, when Vietnam made a decision to upgrade the relationship; since then, overlapping strategic and economic interests have compelled the United States and Vietnam to improve ties across a wide spectrum of issues. Congress played a significant role in the normalization process and continues to influence the state of relations.

In the United States, voices favoring improved relations have included those reflecting U.S. business interests in Vietnam's reforming economy and U.S. strategic interests in expanding cooperation with a populous country—Vietnam has 88 million people—that has an ambivalent relationship with China. Others argue that improvements in bilateral relations should be conditioned upon Vietnam's authoritarian government improving its record on human rights. Vietnam is asserting itself on the regional stage; for instance, in 2010 it is the chair of the Association of Southeast Asian Nations (ASEAN). The population of more than 1 million Vietnamese-Americans, as well as legacies of the Vietnam War, also drive continued U.S. interest.

Vietnamese leaders have sought to upgrade relations with the United States in part due to the desire for continued access to the U.S. market and to worries about China's expanding influence in Southeast Asia. That said, Sino-Vietnam relations are Vietnam's most important bilateral relationship and Vietnamese leaders must tiptoe carefully along the tightrope between Washington and Beijing, such that improved relations with one capital not be perceived as a threat to the other. Also, some Vietnamese remain suspicious that the United States' long-term goal is to erode the Vietnamese Communist Party's (VCP) monopoly on power.

Economic ties are the most mature aspect of the U.S.-Vietnam bilateral relationship. The United States is Vietnam's largest export market and in 2009 was its largest source of foreign direct investment. Bilateral trade has grown more than fivefold since the United States extended "normal trade relations" (NTR) treatment to Vietnam in 2001. Increased bilateral trade also has been fostered by Vietnam's market-oriented reforms and the resulting growth in its foreign-invested and privately-owned sectors. From 1987-2007, Vietnam's annual gross domestic product (GDP) growth averaged over 7%. Since then, Vietnam's economy has been buffeted by economic difficulties that have lowered growth rates and raised inflation. Vietnam is one of the largest recipients of U.S. assistance in East Asia; since the late 2000s, annual U.S. aid typically surpasses \$100 million, much of it for health-related activities. The Obama Administration is debating whether to add Vietnam to the Generalized System of Payments (GSP) program, which extends duty-free treatment to certain products that are imported from designated developing countries. The United States and Vietnam are two of eight countries negotiating a Trans-Pacific Strategic and Economic Partnership (TPP) regional free trade agreement (FTA).

Human rights are the biggest thorn in the side of the relationship. Vietnam is a one-party, authoritarian state ruled by the Vietnamese Communist Party (VCP), which appears to be following a strategy of permitting most forms of personal and religious expression while selectively repressing individuals and organizations that it deems a threat to the party's monopoly on power. Most observers argue that the government, which already had tightened restrictions on dissent and criticism since 2007, intensified its suppression in 2009 and early 2010.

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## Recent Developments

### Human Rights Deterioration Putting a Ceiling on High-Level Diplomacy?

In general, human rights conditions for most Vietnamese are markedly better than they were a generation ago. However, according to numerous accounts, over the past three to four years the Vietnamese government's suppression of dissent has intensified and its tolerance for criticism has lessened markedly. Activists and critics of the government have been arrested and/or harassed, journalists have been given less freedom to criticize or investigate government actions, bloggers have been detained and/or come under increased surveillance, and the government has made efforts to divert Vietnamese away from private social networking sites like Facebook by creating state-controlled alternatives. Human rights and other groups also have accused the Vietnamese government of permitting cyberattacks from within Vietnam on websites operated by Vietnamese activists and bloggers.<sup>1</sup> In a sign of the harsher tone, in January 2010 democracy activists Le Cong Dinh, Nguyen Tien Trung, and Tran Huynh Duy Thuc were tried and convicted under a national security provision reserved for "organizers, instigators, and active participants" of anti-state activities. Such charges typically carry much harsher penalties (including execution) than the lesser charges that had previously been used in similar cases. The three were sentenced to prison terms ranging from five to sixteen years. As opposed to a massive suppression, the Vietnamese government's actions appear to be selective, targeting specific individuals and organizations who have called for the institution of democratic reforms and/or publicly criticized government policy on sensitive issues, such as policy toward China.

### *The Vietnam Human Rights Act*

Various human rights-related bills were introduced in Congress in 2009. (See "Selected Legislation in the 111<sup>th</sup> Congress") These include the Vietnam Human Rights Act (H.R. 1969 and S. 1159), which would link Vietnam's entry into the U.S. Generalized System of Preferences (GSP) program to improvements in workers' rights in Vietnam and would link increases in some non-humanitarian aid to improvements in human rights conditions in Vietnam. H.R. 2410, the FY2010 Foreign Relations Authorization Act, contains a "sense of Congress" section stating that the Secretary of State should place Vietnam on the list of "Countries of Particular Concern" for severe violations of religious freedom. For more details, see "The Vietnam Human Rights Act" section.

### Relations Deepen and Expand, Symbolic Developments Remain Stalled

From 2004-2008, the Bush Administration made a concerted effort to upgrade bilateral relations. Since the Obama Administration took office, the United States and Vietnam have deepened and expanded ties and cooperation in a wide range of areas. The deterioration in Vietnam's human rights situation does not appear to have slowed this process. For instance, many consider the development of the U.S.-Lower Mekong Ministerial forum to be a significant development.

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<sup>1</sup> See Human Rights Watch, "Vietnam: Stop Cyber Attacks Against Online Critics," May 27, 2010.

However, the Vietnamese government's increased suppression of dissent appears to have affected relations at the symbolic level. Due to concerns over the deterioration in human rights conditions in Vietnam, the Administration appears to have been reluctant to take the steps that might symbolically and publically upgrade relations. This ambivalence is particularly notable given the Administration's policy of expanding the U.S. presence in Southeast Asia, Vietnam's stated eagerness for the United States to play a larger regional role, and the repeated mention by Administration officials of the growing harmonization of interests between Hanoi and Washington—particularly because of shared concerns with China's rising influence.

It remains to be seen whether the Administration's qualms will affect strategic relations. A key indicator will be whether the White House decides to hold a summit meeting with Vietnam; these were annual events during the second term of President George W. Bush. Additionally, the Vietnamese government reportedly has invited President Obama to hold a leaders' meeting in Hanoi with members of the Association of Southeast Asian Nations (ASEAN). In 2009, Obama held the first such meeting, on the sidelines of the Asia Pacific Economic Cooperation (APEC) forum summit in Singapore. Vietnam currently holds the rotating chair of ASEAN, a position that will provide the two countries with a number of opportunities for discussion of regional issues, such as how to respond to developments in Burma. Vietnam reportedly has said it would like to use its chairmanship to facilitate the Obama Administration's goal of joining the annual East Asia Summit of regional leaders for the first time.<sup>2</sup>

## **Nuclear Diplomacy**

As its economy has grown, so have Vietnam's energy demands, which according to one source grew by 15% annually in the first decade of the 2000s.<sup>3</sup> To help keep pace, Vietnam plans to build its first nuclear power plants in the coming decades. The U.S. Department of Energy (DoE) and the Nuclear Regulatory Agency train Vietnamese officials on nonproliferation and nuclear safety best practices related to power plant operation, and assisted with the drafting of Vietnam's Atomic Energy Law, passed in June 2008. The U.S. State Department's Export Control and Border Security Program (EXBS) has provided assistance to Vietnam to strengthen export controls in the country. An effective export control regime is considered a key prerequisite to establishing a nuclear power program in a country.

Vietnam has also supported U.S. nonproliferation initiatives. With DoE assistance under the Global Threat Reduction Initiative, Vietnam has been converting its Soviet-supplied research reactor in Dalat from highly enriched uranium (HEU) to low enriched uranium fuel, and returning the HEU fuel to Russia. Attending the April 2010 nuclear security summit in Washington, DC, Vietnamese Prime Minister Nguyen Tan Dung (pronounced "zung") pledged to continue to convert the Dalat research reactor, as well as to join the Global Initiative to Combat Nuclear Terrorism.

In March 2010, the United States and Vietnam signed a Memorandum of Understanding Concerning Cooperation in the Civil Nuclear Field that is designed to increase cooperation in a number of areas. U.S. Ambassador to Vietnam Michael Michalak said he anticipates the

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<sup>2</sup> For more on the East Asia Summit, see CRS Report RL33653, *East Asian Regional Architecture: New Economic and Security Arrangements and U.S. Policy*, by Dick K. Nanto.

<sup>3</sup> Economist Intelligence Unit, *Vietnam: Energy Report*, December 16, 2009.

agreement will be a “stepping stone” to a bilateral nuclear energy cooperation agreement, which would be subject to Congressional review.<sup>4</sup> As of April 2010, no formal negotiations had begun.

### **The 2011 Vietnamese Communist Party Congress**

Political jockeying has begun to try to influence the outcomes of the Vietnamese Communist Party’s (VCP) 11<sup>th</sup> National Congress, which is to be held in early 2011. Party Congresses, held every five years, are often occasions for major leadership realignments and set the direction for Vietnam’s economic, diplomatic, and social policies. Among other moves, Vietnam’s most important post, VCP General Secretary, is expected to become vacant as its current occupant, Nong Duc Manh, is completing his second consecutive five-year term. Other seats on the supreme decision-making body, the Politburo, are also expected to become open if the VCP enforces its policy of retiring older members (generally, those over 70) in favor of bringing relatively younger officials into positions of power.

Although factional divisions between “reformers” and “conservatives” often are apparent in Vietnamese policy battles, many observers say the current internal wrangling is less clear-cut, and may be more about power than policy. Regardless, in such an atmosphere, major policy directions, particularly in favor of political and economic reform and liberalization, are unlikely to be unveiled. Many analyses of the human rights situation, for instance, ascribe at least part of the reason for the increased arrests to a desire by Vietnamese leaders not to appear weak in the run-up to the 11<sup>th</sup> Party Congress.

### **Bilateral Security Cooperation**

In December 2009, Vietnamese Minister of National Defense, General Phung Quang Thanh, visited the United States, the second visit by a Defense Minister since the end of the Vietnam War. During his visit, Thanh met with U.S. Defense Secretary Robert Gates, other military officials (including those at the U.S. Pacific Command in Hawaii), and Members of Congress. The visit was generally regarded to be a low-key affair, symbolizing the incremental nature of improving security ties. The two sides reportedly agreed to start a Defense Policy Dialogue, i.e. direct defense ministry talks, in 2010. This development could open the way for more robust military-to-military ties. During the George W. Bush Administration, the United States and Vietnam reportedly agreed that defense ministerial level visits would occur roughly every three years. The latest Security Dialogue on Political, Security, and Defense Issues, a civilian-led forum begun in 2008 that includes military officials in both countries, was held in early June 2010.

### **Sino-Vietnamese Relations and Territorial Disputes in the South China Sea**

Since 2007, even as official Sino-Vietnamese relations have expanded, bilateral tensions have intensified over competing territorial claims in the South China Sea. China has increased seizures of Vietnamese fishing boats, has reportedly warned Western energy companies not to work with Vietnam to explore or drill in the disputed waters, and has announced plans to develop the disputed islands as tourist destinations. Vietnam reportedly intends to use its chairmanship of ASEAN in 2010 to “internationalize” the disputes by forming a multi-country negotiation forum,

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<sup>4</sup> U.S. Embassy Hanoi, “Ambassador’s Speech Remarks at the Signing Ceremony for Nuclear Cooperation MOU,” March 30, 2010.



which would force China to negotiate in a multilateral setting. Vietnamese officials reportedly have begun to ask their U.S. counterparts more frequently and with greater intensity whether the United States will support Vietnamese efforts to combat what they see as China's encroachment in the South China Sea.<sup>5</sup> In a news conference releasing the Vietnamese Defense Ministry's 2009 White Paper, Deputy Defense Minister Nguyen Chi Vinh said that sovereignty disputes in the South China Sea have created "concerns and new challenges for Vietnamese national defense."<sup>6</sup>

The United States has followed a policy of neutrality on the claims by the parties, which also include Brunei, Indonesia, Malaysia, the Philippines, and Taiwan. Some Vietnamese say that while they do not expect the United States to take sides in the dispute, it would be helpful if the United States did more to emphasize, through language or actions, that all parties to the dispute should adhere to common principles, such as promoting transparency, adhering to the rule of law, refraining from undertaking unilateral actions, and committing to the freedom of the seas and navigation. Thus, many Vietnamese officials likely were pleased to hear Secretary Gates give a speech during the June 2010 Shangri-La Dialogue in which he labeled the South China Sea as "an area of growing concern." He added that the United States "oppose[s] the use of force and actions that hinder freedom of navigation," and that it "...object[s] to any effort to intimidate U.S. corporations or those of any nation engaged in legitimate economic activity." Gates urged countries in the region to implement the 2002 Declaration of Conduct of Parties in the South China Sea, a non-binding agreement between ASEAN's ten members and China to resolve disputes diplomatically, exercise restraint, and respect the freedom of navigation.<sup>7</sup>

In moves widely interpreted as related to increased tensions in the South China Sea, Vietnam in 2009 signed contracts to purchase billions of dollars of new military equipment from Russia, including six Kilo-class submarines. According to Vietnam's 2009 Defense White Paper, Vietnam's defense budget increased by nearly 70% between 2005 and 2008.<sup>8</sup>

## **The 2011 Vietnamese Communist Party Congress**

Political jockeying has begun to influence the outcomes of the VCP's 11<sup>th</sup> National Congress, which is to be held in 2011. Party Congresses, held every five years, are often occasions for major leadership realignments and set the direction for Vietnam's economic, diplomatic, and social policies. During the Congresses, delegates elect a new Central Committee, which in turn elects the Politburo and (from among the Politburo members) a general secretary for the VCP. Both the jockeying for and the actual event itself are secretive affairs, making it difficult to make informed speculation about their outcomes, particularly before they occur. That said, signs of divisions among the VCP's leadership are likely to mean that the 11<sup>th</sup> Party Congress could be a significant event. (See "Political Trends" below).

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<sup>5</sup> Edward Wong, "Vietnam Enlists Allies To Stave Off China's Reach," *The New York Times*, February 5, 2010. For a useful analysis of Vietnam's efforts, see Carlyle Thayer, "Background Briefing: ASEAN, China and the South China Sea Disputes," April 8, 2010, <http://www.scribd.com>.

<sup>6</sup> Xuan Linh, "Announcement of the 2009 White Book on National Defense," *VietnamNet* in Vietnamese, December 12, 2009, as translated by the Open Source Center, SEP20091211013002.

<sup>7</sup> U.S. Department of Defense Office of Public Affairs, "Speech to the International Institute for Strategic Studies as Delivered by Secretary of Defense Robert M. Gates," Shangri-La Hotel, Singapore, June 5, 2010.

<sup>8</sup> Vietnam, Ministry of Defense, *White Paper*, 2009, p. 38.

If ideology is the dominant factor in these internal political battles, it is unclear to what extent U.S. interests would be affected. Thus far, the apparent momentum of the “conservatives” appears to have manifested in two areas: a slowdown in market-oriented reforms and on human rights (particularly a crackdown on dissent and an increase in restrictions on political activity on the Internet). However, during the same period, Vietnamese leaders have become even more aggressive in their push to deepen and expand relations with the United States. If the 11<sup>th</sup> Party Congress endorses a more conservative orientation, and if dissent increases dramatically inside Vietnam, it is possible that domestic issues could trump external factors, and fears about peaceful evolution could dampen Vietnamese leaders’ enthusiasm for pursuing closer strategic ties with the United States.

## **Trade Issues<sup>9</sup>**

In March 2010, the United States and Vietnam, joined six other countries in holding the inaugural round of talks on expanding the Trans-Pacific Strategic and Economic Partnership (TPP) regional free trade agreement (FTA) beyond its four current members (New Zealand, Singapore, Chile, and Brunei). The parties agreed to hold four such sessions a year. Vietnam’s inclusion in the talks has been one of the more controversial elements of the TPP process.<sup>10</sup> Vietnam’s participation as a full-fledged participant in the talks reportedly remains tentative.<sup>11</sup>

In other economic matters, the Obama Administration has identified Vietnam as a “priority market” under its National Export Initiative, which is designed to help double U.S. exports by 2015.<sup>12</sup> In the first four months of 2010, U.S. exports to Vietnam increased by around 4% compared to the same period in 2009. Year-on-year U.S. imports from Vietnam were up by 11%, largely due to increased shipments of Vietnamese clothing and furniture.

The Administration has yet to make a decision about whether to allow Vietnam to enter the U.S. GSP program, which is a priority for the Vietnamese government. Although bilateral disagreements over trade issues have risen in recent years, they generally have not spilled over to affect the course or tone of bilateral relations. Significant areas of friction include clothing trade (Vietnam is the United States’ second-largest source of clothing), fish (particularly catfish), the United States’ designation of Vietnam as a “non-market economy” (NME), the initiation of anti-dumping and counter-vailing duty laws against Vietnamese exporters, Vietnam’s record on protecting intellectual rights, and concerns over Vietnam’s currency policies.

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<sup>9</sup> For more, see CRS Report R40755, *U.S.-Vietnam Economic and Trade Relations: Issues for the 111<sup>th</sup> Congress*, by Michael F. Martin.

<sup>10</sup> Peru and Australia are the other two countries involved in the TPP negotiations. For an example of the controversy over Vietnam’s potential inclusion, see Press Release by Ways and Means Committee Chairman Sander M. Levin, “Charting a Course from Recession to Recovery in an Age of Reform,” Remarks Given at the National Press Club, April 19, 2010, in which the congressman said: “We will also work with the Administration as they begin negotiations in a Trans-Pacific Partnership (TPP) agreement. There are opportunities in this important region for American businesses and workers as well as challenges for us to address, *particularly with the inclusion for the first time of a non-market economy, Vietnam, in a regional trade negotiation*” (emphasis added).

<sup>11</sup> Inside U.S. Trade, “Vietnamese Participation In TPP Talks Still Uncertain Ahead Of 2<sup>nd</sup> Round,” June 11, 2010.

<sup>12</sup> State Department Press Release, “The U.S.-Vietnam Economic Relationship,” Remarks by Under Secretary for Economic, Energy and Agricultural Affairs Robert D. Hormats at the Foreign Trade University Hanoi, Vietnam, April 12, 2010.

## Introduction

Since 2002, overlapping strategic and economic interests have led the United States and Vietnam to improve relations across a wide spectrum of issues.

### U.S. Interests and Goals in the Bilateral Relationship

Currently, factors generating U.S. interest in the relationship include growing trade and investment flows, the large ethnic Vietnamese community in the United States, the legacy of the Vietnam War, increasing interaction through multilateral institutions, the perception that Vietnam may evolve into a “middle power” with commensurate influence in Southeast Asia, and shared concern over the rising strength of China. U.S. goals with respect to Vietnam include developing more amicable relations, bringing the country more into the mainstream of nations, opening markets for U.S. trade and investment, furthering human rights and democracy within the country, countering China’s increasing regional influence, and maintaining U.S. influence in Southeast Asia. The array of policy instruments the United States employs in relations with Vietnam includes trade incentives and restrictions, foreign assistance, cooperation in international organizations, diplomatic pressures, educational outreach, and security cooperation.

### Vietnam’s Interests and Goals in the Bilateral Relationship

For Vietnam’s part, since the mid-1980s, Hanoi essentially has pursued a four-pronged national strategy: (1) prioritize economic development through market-oriented reforms; (2) pursue good relations with Southeast Asian neighbors that provide Vietnam with economic partners and diplomatic friends; and (3) repair and deepen its relationship with China, while (4) simultaneously buttressing this by improving relations with the United States as a counterweight to Chinese ambition.<sup>13</sup> By virtue of its economic importance and great power status, the United States has loomed large not only in Vietnam’s strategic calculations, but also in domestic developments. For instance, Vietnam’s protracted decision from 1999-2001 to sign and ratify the landmark bilateral trade agreement (BTA) with the United States helped to break the logjam that had effectively paralyzed debate over the future direction and scope of economic reforms. Additionally, notwithstanding the legacy of the Vietnam War era, the Vietnamese public appears to hold overwhelmingly positive views of the United States.<sup>14</sup>

There are a number of strategic and tactical reasons behind Vietnam’s efforts to upgrade its relationship with the United States. Many Vietnamese policymakers seek to counter Chinese ambitions in Southeast Asia by encouraging a greater U.S. presence in the region. Vietnam also needs a favorable international economic environment—for which it sees U.S. support as critical—to enable the country’s economy to continue to expand.

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<sup>13</sup> Marvin Ott, “The Future of US-Vietnam Relations,” Paper presented at The Future of Relations Between Vietnam and the United States, SAIS, Washington, DC, October 2-3, 2003.

<sup>14</sup> State Department Office of Research, *Vietnam: U.S. Image Gets a Boost*, Opinion Analysis, Washington, DC, September 9, 2008.

## **A Ceiling on the Relationship?**

Ultimately, the pace and extent of the improvement in bilateral relations is limited by several factors, including Hanoi's concerns about upsetting Beijing, U.S. scrutiny of Vietnam's human rights record, and Vietnamese conservatives' suspicions that the United States' long-term goal is to end the Vietnamese Communist Party's (VCP) monopoly on power through a "peaceful evolution" strategy.

## **Congress's Role**

Throughout the process of normalizing relations with Vietnam, Congress has played a significant role. Not only has Congress provided oversight and guidance, but it has shaped the interaction by imposing constraints, providing relevant funding, and through its approval process for agreements. Many Members have been at the forefront of efforts to highlight human rights conditions in Vietnam, as well as "legacy issues" of the Vietnam War such as recovering the remains of missing U.S. troops. In the 1990s and early 2000s, many Members of Congress who favored improved bilateral relations provided the Clinton and George W. Bush Administrations with political backing for their policies of upgrading relations with Vietnam.

## **Key Issues and Decisions**

This report provides an overview of U.S. relations with Vietnam, including policy issues, the economic and political situation in Vietnam, and a list of pertinent legislation. Key issues confronting the United States include:

- whether to continue the Bush Administration's policy of pursuing high-level contacts with Vietnam, including annual summits;
- whether and how to try to improve the human rights situation in Vietnam, including whether to link other aspects of the relationship to human rights trends;
- how far to pursue strategic and military-to-military ties;
- whether to take a more visible position in Vietnam's ongoing territorial disputes with China in the South China Sea;
- whether to admit Vietnam into the Generalized System of Payments program;
- whether to negotiate a Trans Pacific Partnership free trade agreement that includes Vietnam;
- how much and what types of bilateral economic assistance to provide; and
- how to clear up "legacy issues" from the Vietnam War, particularly the suffering of Vietnamese who say they are victims of dioxin, a byproduct of the defoliant Agent Orange that the United States used during the war.

## **Brief History of the Normalization of U.S.-Vietnam Relations**

The United States' post-World War II military involvement in Vietnam began in the early 1960s, with the dispatch of military advisers to assist the South Vietnamese government in its battles with communist North Vietnam and indigenous (i.e. South Vietnamese) communist forces. Thereafter, the U.S. presence escalated. By the time the Nixon Administration withdrew U.S. forces in 1973, millions of U.S. troops had served in Vietnam, with more than 50,000 killed.

U.S.-Vietnam diplomatic and economic relations were virtually nonexistent for more than 15 years following North Vietnam's victory in 1975 over South Vietnam. The United States maintained a trade embargo and suspended foreign assistance to unified Vietnam. Obstacles to improved relations included U.S. demands that Vietnam withdraw from Cambodia (which Vietnam invaded in 1978), U.S. insistence on the return of/information about U.S. Prisoners of War/Missing in Action (POW/MIAs), and Vietnamese demands that the United States provide several billion dollars in postwar reconstruction aid, which they claimed had been promised by the Nixon Administration.

A series of actions by Vietnam in 1978 in particular had a long-term negative effect on U.S.-Vietnamese relations. Vietnam aligned itself economically and militarily with the Soviet Union and invaded Cambodia, installing a government backed by 200,000 Vietnamese troops. China conducted a one-month military incursion along Vietnam's northern border in 1979, which led to nearly three decades of disputes over the land border, and kept strong military pressure on Vietnam until 1990. U.S. policy toward Vietnam was also influenced by the exodus of hundreds of thousands of Vietnamese "boat people," including many ethnic Chinese, who fled or were expelled under Vietnam's harsh reunification program.

Developments in the mid- and late 1980s set the stage for the rapid normalization of ties in the following decade. Inside Vietnam, disastrous economic conditions and virtual diplomatic isolation led the VCP to adopt (at its 6<sup>th</sup> National Party Congress in 1986) a more pragmatic, less ideological, line. Hanoi adopted market-oriented economic reforms (dubbed *doi moi*, or "renovation"), loosened many domestic political controls, and began to seek ways to extract itself from Cambodia.

U.S.-Vietnam cooperation on the POW/MIA issue began to improve following a 1987 visit to Vietnam by General John Vessey, President Reagan's Special Emissary for POW-MIA Issues. As Vietnam withdrew forces from Cambodia in 1989 and sought a compromise peace settlement there, the George H.W. Bush Administration decided to improve relations with Hanoi, which was also interested in restoring ties to the United States. In April 1991, the United States laid out a detailed "road map" for normalization with Vietnam. Later that year, Vietnam allowed the United States to open an office in Hanoi to handle POW/MIA affairs.

In 1993, President Clinton built on the thaw by signaling the end of U.S. opposition to Vietnam receiving international financial assistance. In February 1994, President Clinton announced the end of the U.S. trade embargo on Vietnam. Two months later, Congress passed the Foreign Relations Authorization Act, Fiscal Years 1994 and 1995 (P.L. 103-236), which contained a "Sense of the Senate" section expressing that chamber's support for the normalization of relations with Vietnam. Despite congressional efforts to tie normalization to the POW/MIA issue as well as



to Vietnam's human rights record, President Clinton continued to advance U.S. relations with Vietnam by appointing the first post-war ambassador to Vietnam in 1997 and signing the landmark U.S.-Vietnam bilateral trade agreement (BTA) in 2000. Throughout this period, the normalization process was made possible by Vietnam's strategic desire to improve relations with the United States, continued improvements in POW/MIA cooperation, Vietnam's ongoing reform efforts, and by Vietnam's general cooperation on refugee issues. All of these issues remain on Vietnam's bilateral agenda.

President Clinton visited Vietnam from November 16-20, 2000, the first trip by a U.S. President since Richard Nixon went to Saigon (now Ho Chi Minh City) in 1969. The visit was notable for the unexpected enthusiasm expressed by ordinary Vietnamese, who thronged by the thousands to greet or catch a glimpse of the President and the First Lady. These spontaneous outbursts, combined with the President's public and private remarks about human rights and democratization, triggered rhetorical responses from conservative Vietnamese leaders. During the visit, Vietnamese leaders pressed the U.S. for compensation for Agent Orange victims, for assistance locating the remains of Vietnam's soldiers still missing, and for an increase in the United States' bilateral economic assistance program.

Progress towards the resumption of normal bilateral relations continued under the George W. Bush Administration. Despite growing concerns about the Vietnamese government's human rights record, Congress ratified the U.S.-Vietnam BTA in October 2001; the new agreement went into effect on December 10, 2001. Under the BTA, the United States granted Vietnam *conditional* normal trade relations (NTR), a move that significantly reduced U.S. tariffs on most imports from Vietnam.<sup>15</sup> In return, Hanoi agreed to undertake a wide range of market-liberalization measures. Vietnam's conditional NTR status was renewed every year until December 2006, when Congress passed P.L. 109-432, a comprehensive trade and tax bill, that granted Vietnam permanent NTR status as part of a wider agreement that saw Vietnam become a member of the World Trade Organization (WTO) as of January 11, 2007.<sup>16</sup>

As discussed in the following section, during the Bush Administration, the United States and Vietnam dramatically upgraded diplomatic and strategic aspects of their relationship to the point where the two countries have all-but-normalized bilateral relations, at least from the U.S. point of view. As discussed below, however, many Vietnamese still consider relations to not be completely normalized until the United States provides more compensation for purported victims of "Agent Orange" and/or drops its legal categorization of Vietnam as a non-market economy.

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<sup>15</sup> Vietnam's NTR status was conditional because it was subject to annual Presidential and congressional review under the U.S. Trade Act of 1974's Jackson-Vanik provisions, which govern trade with non-market economies. Every year between 1998 and 2006, Vietnam received a presidential waiver from the restrictions of the Jackson-Vanik provisions. From 1998 to 2002, congressional resolutions disapproving the waivers failed in the House. Disapproval resolutions were not introduced between 2003 and 2006, the last year of Vietnam's conditional NTR status.

<sup>16</sup> See CRS Report RL33490, *Vietnam PNTR Status and WTO Accession: Issues and Implications for the United States*, by Mark E. Manyin, William H. Cooper, and Bernard A. Gelb.

## **Major Issues in U.S.-Vietnam Relations**

### **Diplomatic Ties**

At some point in the mid-2000s, leaders in both Hanoi and Washington, DC, sought new ways to upgrade the bilateral relationship. One manifestation of this goal was four annual summits from 2005-08. The Bush Administration appeared to use these top-level meetings to encourage economic and political reforms inside Vietnam. The 2005 and 2008 summits were particularly noteworthy.

#### **June 2005 Summit**

Then-Vietnamese Prime Minister Phan Van Khai's June 2005 trip to the United States was a landmark in the improvement of relations between the two countries. Not only was the trip the first such visit to the United States by a Vietnamese Prime Minister since the end of the Vietnam War, but combined with President Bush's November 2006 visit to Vietnam it also focused the attention of the leaders in Washington and Hanoi upon how they could improve the overall relationship. While Prime Minister Khai was in Washington, he and President Bush issued a joint statement expressing their "intention to bring bilateral relations to a higher plane." The two countries signed an agreement on implementing a bilateral International Military Education Training (IMET) program to send two Vietnamese officers to the United States for English language training. The two sides also announced an agreement to resume U.S. adoptions of Vietnamese children, which Hanoi had halted in 2002. Protesters, mainly Vietnamese-Americans, appeared at every stop on Prime Minister Khai's trip.

#### **June 2008 Summit**

The latest summit occurred between President Bush and Prime Minister Dung in Washington, DC, in June 2008. Prime Minister Dung's trip was notable for the number and range of agreements the two governments reached, as well as new steps they took to deepen their level of engagement. Major developments included the announcement of formal "political-military talks," a process that the United States has with four other Southeast Asian countries; the launch of bilateral investment treaty (BIT) negotiations; the Bush Administration's announcement that it would begin the process of exploring whether to add Vietnam to the Generalized System of Payments (GSP) program; the launch of a "high-level" bilateral Education Task Force; an agreement in principle to introduce a Peace Corps program in Vietnam; and the announcement of new initiatives on adoptions, nuclear safety, aviation, climate change, food safety. Prime Minister Dung also became the highest-level Vietnamese official since the Vietnam War to visit the Pentagon, where he met with Secretary of Defense Robert Gates.

### **The Lower Mekong River Ministerial Forum**

In late July 2009, on the sidelines of the ASEAN Regional Forum (ARF) Foreign Ministerial in Phuket, Thailand, Secretary of State Hillary Clinton met with the foreign ministers of the lower Mekong countries, excluding Burma (i.e. Vietnam, Cambodia, Laos, and Thailand), in the first-ever U.S.-Lower Mekong Ministerial Meeting. The Ministers issued a joint statement outlining the wide-ranging areas of discussion, which included responses to climate change; fighting

infectious disease; and education policy. They agreed to discuss follow-up meetings and cooperation.<sup>17</sup> Since then, the Mekong River Commission and the Mississippi River Commission agreed to pursue a “sister river” partnership to share expertise and best practices in areas such as climate change adaptation, water resource management, and food security. The Obama Administration is seeking Congressional approval for an additional \$15 million in FY2010 for assistance related to improving food security in the Mekong countries.

Vietnam and Cambodia reportedly have urged the United States to become more active in Mekong issues. They are partly motivated by the environmental impact of Chinese dams and other projects on the upper portions of the Mekong that are affecting the downriver countries.<sup>18</sup>

## **Economic Ties<sup>19</sup>**

Economic ties are the most mature aspect of the bilateral relationship. Since the mid-2000s, the United States has been Vietnam’s largest export market, to the point where in 2009, exports to the United States represented about 20% of Vietnam’s total exports. According to the U.S. Embassy in Hanoi, in 2009, U.S. firms were Vietnam’s single-largest source of foreign investment.<sup>20</sup> China is Vietnam’s single-largest trading partner, and its economic importance—particularly as a source of imports—to Vietnam has been growing in recent years. Collectively, U.S. firms have become one of the country’s largest sources of foreign direct investment (FDI). U.S. companies’ cumulative FDI still lags behind many European and Asian competitors, which had a head start in operating in Vietnam. Since 2002, Vietnam has run an overall current account deficit with the rest of the world.

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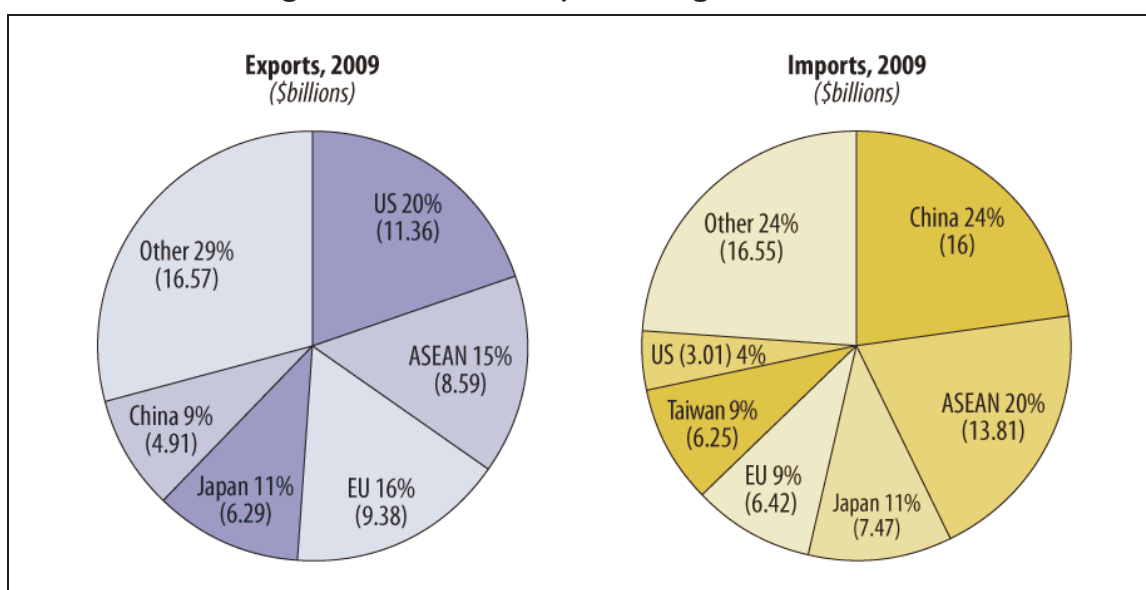
<sup>17</sup> State Department Press Release, “Joint Press Statement of the U.S.-Lower Mekong Ministerial Meeting,” July 23, 2009.

<sup>18</sup> Catharin Dalpino, “Bureaucratic Suspense at Phuket,” Asia Security Initiative blog, Posted on July 17, 2009, <http://asiasecurity.macfound.org/>.

<sup>19</sup> For more, see CRS Report R40755, *U.S.-Vietnam Economic and Trade Relations: Issues for the 111<sup>th</sup> Congress*, by Michael F. Martin.

<sup>20</sup> U.S. Embassy Hanoi website, “U.S.-Vietnam Relations 15<sup>th</sup> Anniversary,” <http://vietnam.usembassy.gov/15th-anniversary.html>.



**Figure I. Vietnam's Major Trading Partners, 2009**

**Source:** Preliminary 2009 data from the General Statistics Office of Vietnam. Adapted by CRS.

U.S.-Vietnam trade has soared since the early 2000s. As shown in **Table 1**, trade flows exceeded \$15 billion in 2009, more than ten times the level in 2001, the year before Vietnam received conditional NTR status. Increased bilateral trade also has been fostered by Vietnam's market-oriented reforms and the resulting growth in its foreign-invested and privately-owned sectors. Over 80% of the increase in U.S.-Vietnam trade since 2001 has come from the growth in imports from Vietnam, particularly clothing items. Indeed, Vietnam has emerged as the United States' second-largest source of imported clothing, after China.

**Table 1. U.S.-Vietnam Merchandise Trade, Selected Years**  
(millions of dollars)

	U.S. Imports from Vietnam	U.S. Exports to Vietnam	Total Trade		Trade Balance
			Volume	Change from prior yr.	
1994 (trade embargo ended)	50.5	172.2	222.7	—	121.7
2001 (year before NTR in effect) <sup>a</sup>	1,026.4	393.8	1,420.2	23%	-632.6
2002 (1 <sup>st</sup> year NTR in effect) <sup>a</sup>	2,391.7	551.9	2,943.6	107%	-1,839.8
2007 (PNTR extended) <sup>a</sup>	10,541.2	1,823.3	12,364.5	31%	-8,717.9
2008	12,610.9	2,673.0	15,283.9	24%	-9,937.9
2009	12,366.8	2,966.6	15,333.4	0.3%	-9,400.2
Jan – Apr 2009	3,747.3	822.7	4,570.0	—	-2,924.6
Jan – Apr 2010	4,151.4	1,097.6	5,249.0	15%	-3,053.8

	U.S. Imports from Vietnam	U.S. Exports to Vietnam	Total Trade		Trade Balance
			Volume	Change from prior yr.	
Major Imports from Vietnam	clothing, wooden furniture, footwear, fish and prepared fish products, electrical machinery, petroleum products, coffee, cashew nuts				
Major Exports to Vietnam	passenger cars, machinery and mechanical equipment, meat, cotton, plastics, iron and steel, electrical machinery				

**Source:** U.S. International Trade Commission. Data are for merchandise trade on a customs basis.

- a. Normal trade relations (NTR) status was extended to Vietnam in December 2001, when the U.S.-Vietnam bilateral trade agreement went into effect. Thus, 2002 was the first full year in which Vietnam benefitted from NTR status. Likewise, 2007 was the first full year Vietnam received permanent normal trade relations (PNTR) status, which was extended to Vietnam in December 2006.

Since the start of the global economic slowdown in 2008, U.S.-Vietnam trade flows have maintained their strength much better than Vietnam's trade with many of its other economic partners. According to Vietnamese data, in 2009, Vietnam's total exports (i.e. what the rest of the world imports from Vietnam) fell by around 9% compared with 2008, while its exports to the United States fell by around 2%. Vietnam's total imports in 2009 (i.e. exports from the rest of the world to Vietnam) fell by around 13%, compared with a 15% *increase* in imports from the United States.<sup>21</sup>

In the first four months of 2010, U.S.-Vietnam trade flows increased by 15%. U.S. imports from Vietnam were up by 11% compared to the same period in 2009, largely due to increased shipments of Vietnamese clothing and furniture. Year-on-year U.S. exports to Vietnam increased by around 4%.

### **Trade Initiatives: GSP, TIFA, BIT, and TPP**

Obtaining GSP status from the United States has become a major objective for Vietnam. The week before Prime Minister Dung's June 2008 visit to Washington, the Bush Administration announced it would begin a review of whether Vietnam meets the eligibility criteria for designation as a beneficiary country under the GSP program. The primary purpose of the program, which the United States and other industrial countries initiated in the 1970s, is to promote economic growth and development in developing countries by stimulating their exports.<sup>22</sup> The Obama Administration has yet to make a decision about entering Vietnam into the GSP program. H.R. 1969 and S. 1159, the current versions of the Vietnam Human Rights Act, would prohibit Vietnam's entry into the GSP program unless Vietnam's labor rights regime were certified as making improvements in certain areas, particularly the right of association.

Working level U.S. and Vietnamese trade officials hold regular meetings under the bilateral Trade and Investment Framework Agreement (TIFA) that was signed in June 2007. TIFAs are often viewed as a stepping stone toward an eventual free trade agreement (FTA). The two countries are also continuing to hold "technical discussions" about establishing a bilateral investment treaty (BIT). Substantive negotiations are on hold, pending the Obama Administration's review of a

<sup>21</sup> CRS analysis of preliminary 2009 trade data from the General Statistics Office of Vietnam, <http://www.gso.gov.vn/>.

<sup>22</sup>For more, see CRS Report RL34702, *Potential Trade Effects of Adding Vietnam to the Generalized System of Preferences Program*, by Michael F. Martin and Vivian C. Jones.

United States model for BITs.<sup>23</sup> The most ambitious trade initiative with Vietnam, negotiating a multilateral free trade agreement under the Trans-Pacific Partnership (TPP), is discussed in the Most Recent Developments section of this report (see “Trade Issues”).

## **Trade Friction**

As bilateral economic relations have expanded, so have trade disputes. Significant areas of friction include clothing trade, fish (particularly catfish), the United States’ designation of Vietnam as a “non-market economy” (NME), Vietnam’s record on protecting intellectual rights, and concerns over Vietnam’s currency policies.<sup>24</sup> Vietnamese officials are particularly concerned about the first three issues, and about the number of anti-dumping suits that have been initiated against Vietnamese exporters for allegedly selling products in the U.S. at prices below their “normal value.” In general, while bilateral trade disputes have been irritants, as of early 2010 they have not spilled over to affect the course or tone of bilateral relations. The regular TIFA talks appear to have become the main forum for the two sides to discuss and manage trade disputes.

## **U.S. Foreign Assistance to Vietnam**

As the normalization process has proceeded, the U.S. has eliminated most of the Cold War-era restrictions on aid to Vietnam, and U.S. assistance has increased markedly from the provision of about \$1 million when assistance was resumed in 1991. Since the late 2000s, estimated U.S. aid has surpassed \$100 million, about five times the level in FY2000, making Vietnam one of the largest recipients of U.S. aid in East Asia. U.S. assistance to Vietnam in FY2009 was around \$130 million, with another \$140 million or so expected to be spent in FY2010. For FY2011, the Obama Administration has requested around \$120 million for aid programs in Vietnam.

The U.S. bilateral aid program is dominated by health-related assistance. In particular, spending on HIV/AIDS treatment and prevention in Vietnam has risen since President Bush designated Vietnam as a “focus country” eligible to receive increased funding to combat HIV/AIDS in June 2004 under the President’s Emergency Plan for AIDS Relief (PEPFAR).<sup>25</sup> Some Vietnamese, as well as some Western aid providers, have questioned the wisdom of allocating these sums of money for Vietnam, which does not appear to have a severe HIV/AIDS problem. Other sizeable U.S. assistance items include programs assisting Vietnam’s economic reform efforts and governance, programs to combat trafficking in persons, and de-mining programs. Cumulatively, the 110<sup>th</sup> and 111<sup>th</sup> Congress appropriated \$9 million for cleaning up dioxin storage sites as of April 2010 (see the “Agent Orange” section). In recent years, some Members of Congress have attempted to link increases in non-humanitarian aid to progress in Vietnam’s human rights record (see the “Human Rights Issues” section).

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<sup>23</sup> “Hormats: BIT To Balance Business Needs With Labor, Environment Goals,” *World Trade Online Daily News*, March 10, 2010.

<sup>24</sup> Under the terms of its entry into the WTO, Vietnam will retain its designation as a “non-market economy” (NME) until 2019, making it procedurally easier in many cases for U.S. companies to initiate and succeed in bringing anti-dumping cases against Vietnamese exports. Vietnamese officials would like the United States to recognize Vietnam as a market economy.

<sup>25</sup> Vietnam qualified for the designation in part because of its demonstrated commitment to fighting the epidemic on its own and because of the competency of its medical institutions. Vietnam is estimated to have about 100,000 people living with the HIV/AIDS virus, a number that is projected to grow significantly.

## ***Education Exchanges***

The governments of the United States and Vietnam run a number of educational exchange programs. These generally total around \$10 million a year, a sum not included in the above estimates of U.S. assistance. H.R. 2410, the Foreign Relations Authorization Act for FY2010 and 2011, would transfer control of the Vietnam Education Foundation (VEF), which administers a \$5 million educational exchange program, to the State Department as well as restructure the VEF.<sup>26</sup> The House passed the bill on June 10, 2009. It has not received action in the Senate. Similar attempts (H.R. 6535 and S. 3097) were made in the 110<sup>th</sup> Congress.

## **Human Rights Issues**

### **Overview**

It is difficult to make country-wide generalizations about the state of human rights in Vietnam, a one-party, authoritarian state. For more than a decade, the Vietnamese Communist Party appears to have followed a strategy of permitting most forms of personal and religious expression while selectively repressing individuals and organizations that it deems a threat to the party's monopoly on power. On the one hand, the gradual loosening of restrictions since Vietnam's *doi moi* ("renovation") economic reforms were launched in 1986 has opened the door for Vietnamese to engage in private enterprise and has permitted most Vietnamese to observe the religion of their choice. Since 2004, according to several reports, there have been indications that human rights conditions have improved for many if not most Vietnamese, including those in the Central Highlands and Northwest Highlands regions, two regions whose large minority populations have made them particular centers of human rights concerns.

On the other hand, the government cracks down harshly on anti-government activity. Most observers contend that since early 2007 Vietnamese authorities have adopted a harsher policy of cracking down upon signs of dissent more quickly and more aggressively than they had for much of the mid-2000s. Furthermore, according to numerous accounts, the government's suppression increased in 2009. As opposed to a massive suppression, the Vietnamese government's actions appear to be selective, targeting specific individuals and organizations who have called for the institution of democratic reforms and/or publicly criticized government policy on sensitive issues, such as policy toward China. More dissident groups began to publicly appear beginning in 2006. It is unclear to what extent these groups or their various goals are supported by the broader Vietnamese public.

Since early 2008, press freedoms reportedly also have been curtailed and prominent journalists arrested. For several years before then, the press—which is state-controlled—had been given space to criticize the government on "safe" issues like corruption, economic policy, nature conservation, and environmental pollution.

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<sup>26</sup> The VEF was created by the Vietnam Education Foundation Act of 2000 (Title II of P.L. 106-554). The act also authorized the establishment of the Vietnam Debt Repayment Fund at the Treasury Department, into which all payments made by the Government of Vietnam under the U.S.-Vietnam debt agreement, signed on April 7, 1997, are deposited. Under the legislation, VEF receives \$5 million from the Fund each fiscal year through 2018.

In 2009, the government began increasingly targeting bloggers as well as lawyers who represent human rights and religious freedom activists, particularly those linked to a network of pro-democracy activists. Previously, many blogs had been a relatively free space for political discussion. In 2009, authorities reportedly banned anti-government commentary on blogs, a number of prominent bloggers were arrested, and several blogs with political commentary reportedly were hacked and criticized by official news outlets.<sup>27</sup> In June 2009, Vietnamese authorities arrested human rights lawyer Le Cong Dinh, reportedly for violating article 88 of Vietnam's criminal code, "conducting propaganda against the government," which carries a sentence of up to 20 years. Dinh is best known for his defense of Vietnamese bloggers, human rights defenders, and democracy and labor rights activists. Other lawyers with similar clients, including religious freedom activists, reportedly have been subject to threats and harassment.<sup>28</sup>

Many of the targeted blogs, bloggers, and lawyers had criticized Vietnam's policy toward China and/or have links to pro-democracy activist groups such as Bloc 8406, the banned Democratic Party of Vietnam, or the banned Independent Workers' Union of Vietnam. There are reports that these groups have received help from expatriate Vietnamese, including some in the United States, a charge that Vietnamese officials often make in conversations with their U.S. counterparts. Yahoo has been accused of allowing Vietnamese authorities to embed monitoring and censoring devices on its applications, particularly its blogging service, which are popular in Vietnam.<sup>29</sup>

Various ethnic minority groups, most prominently the minorities known as Montagnards who live in the country's Central Highlands region, also report cases of discrimination and repression.<sup>30</sup> According to several sources, abuses in the Central Highlands appear to have fallen since the last major anti-government protests in 2004, though restrictions on foreigners' access to the region and to Montagnards who have fled to Cambodia complicate accurate reporting. The State Department and other groups have reported that in April 2008, police and soldiers forcibly dispersed Montagnard Christians demonstrating in the Central Highlands, and arrested dozens of protesters.<sup>31</sup> Though these demonstrations appear to have been much smaller than the unrest in 2004, they were the largest in years. (For the location of the Central Highlands region, see **Figure 2** at the end of this report.) Some human rights advocates have criticized the U.S. government for failing to advocate sufficiently for the release of the scores, if not hundreds, of Montagnards who have been imprisoned since 2001.

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<sup>27</sup> Open Source Center Report, "Vietnamese Authorities Seek to Silence, Intimidate Cyber-Activists," FEA20090710868263, July 9, 2009.

<sup>28</sup> Human Rights Watch, "Vietnam: Free Prominent Rights Lawyer Le Cong Dinh," New York, June 16, 2009; Ian Timberlake, "Vietnam Arrests Are Part of Long-Running Crackdown: Analysts," *Agence France Presse*, July 14, 2009.

<sup>29</sup> Open Source Center Report, "Vietnamese Bloggers Drop Local Yahoo Service Given Perceptions of Collusion With Authorities," FEA20090721872665, July 21, 2009.

<sup>30</sup> "Montagnard" is a French term meaning "mountain people" that is often used to refer to the various indigenous ethnic minorities in Vietnam's central and northern mountain areas. According to Human Rights Watch, there are approximately one million Montagnards in the Central Highlands, comprised of approximately six ethnic groups. Since the end of the Vietnam War, millions of ethnic Kinh (Vietnam's dominant ethnic group) from Vietnam's lowlands have migrated into the Central Highlands. Coffee and rubber plantations also have sprouted in the region. The ensuing land pressures have resulted the loss of ancestral homeland by many Montagnards. Hundreds of thousands of Central Highlands Montagnards are thought to follow evangelical Protestantism. For more, see Human Rights Watch, *Repression Of Montagnards, Conflicts over Land and Religion in Vietnam's Central Highlands*, April 2002.

<sup>31</sup> State Department, "2008 Human Rights Reports: Vietnam," February 25, 2009.



## **Religious Freedom**

According to a variety of reports, most Vietnamese now are able to observe the religion of their choice. However, while the freedom to worship generally exists in Vietnam, the government strictly regulates and monitors the activities of religious organizations. Periodically, authorities have increased restrictions on certain groups. Although the constitution provides for freedom of religion, Vietnamese law requires religious groups to join one of the officially recognized religious organizations or denominations. According to many reports, the government uses this process to monitor and restrict religious organizations' operations. Additionally, many groups either refuse to join one of the official religious orders or are denied permission to do so, meaning that these groups' activities technically are illegal.

In 2004, the State Department designated Vietnam as a "country of particular concern" (CPC), principally because of reports of worsening harassment of certain ethnic minority Protestants and Buddhists. When the Vietnamese responded by negotiating with the Bush Administration and adopting internal changes, the two sides reached an agreement on religious freedom, in which Hanoi agreed to take steps to improve conditions for people of faith, particularly in the Central Highlands. The May 2005 agreement enabled Vietnam to avoid punitive consequences, such as sanctions, associated with its CPC designation. The agreement was faulted by human rights groups on a number of grounds, including the charge that religious persecution continues in the Central Highlands. Vietnam was redesignated a CPC in the 2005 and 2006 Religious Freedom Reports.

In November 2006, the State Department announced that because of "many positive steps" taken by the Vietnamese government since 2004, the country was no longer a "severe violator of religious freedom" and was removed from the CPC list. The announcement, which came two days before President Bush was due to depart to Hanoi for the APEC summit, cited a dramatic decline in forced renunciations of faith, the release of religious prisoners, an expansion of freedom to organize by many religious groups, and the issuance of new laws and regulations, and stepped up enforcement mechanisms. Over the course of 2006, as part of the bilateral U.S.-Vietnam human rights dialogue, Vietnam released a number of prominent dissidents the Bush Administration had identified as "prisoners of concern." Vietnam also reportedly told the United States that it would repeal its administrative decree allowing detention without trial. The U.S. Committee on International Religious Freedom, among others, has disputed the Administration's factual basis for the decision to remove Vietnam from the CPC list, arguing that abuses continue and that lifting the CPC label removes an incentive for Vietnam to make further improvements.

## **Workers' Rights**

Vietnam's application to join the GSP program and participation in the TPP trade negotiations have focused attention on labor conditions in Vietnam. The government and the VCP's efforts to maintain one-party rule while adapting to rapid social and economic changes may help to explain the often contradictory trends that can be observed in Vietnam's evolving labor rights regime.

On the one hand, Vietnamese workers are not free to form their own independent unions. All unions must belong to the Vietnam General Confederation of Labor (VGCL), an organ of the VCP that approves and manages subsidiary unions. According to the State Department's 2009 Country Report on Vietnam's human rights practices, "only" 85% of state-owned enterprises,

60% of foreign-invested enterprises, and 30% of private enterprises were unionized.<sup>32</sup> The advocacy group Human Rights Watch has raised concern about the ability of Vietnamese workers to call an official strike, especially at state-owned enterprises (SOEs).<sup>33</sup> Vietnamese authorities reportedly have arrested, harassed, and intimidated leaders of independent unions, such as the United Workers-Farmers Organization of Vietnam, a group formed in 2006 that publicly calls for the right to form independent unions. Analysts have observed that the absence of a true right of association in Vietnam has impeded the improvement of labor rights in other areas. Collective bargaining agreements remain the exception rather than the rule. Rapid economic expansion, corruption, and shortages of funds, training, and personnel reportedly have made it extremely difficult for government authorities to enforce Vietnam's labor laws.

On the other hand, many conclude that since the launch of the *doi moi* reforms, worker rights have made progress despite the restrictions on the right to organize. A comprehensive and detailed Labor Code was passed in 1994 and was revised in 2002 and in 2006. Among other advances, the original 1994 code recognized workers' right to strike, albeit under prescribed conditions. The 2006 amendments, prompted in part by a surge in strikes, for the first time allowed workers to choose their own representatives to negotiate disputes at the thousands of enterprises where no union exists. In the past, the VGCL had been the only organization allowed to represent workers. Additionally, the government for the most part has not moved against strikes, despite the fact that most have been technically illegal (because they were organized by "labor associations," and not officially sanctioned unions). It may also help that most strikes appear to be at foreign-invested enterprises.

The Vietnamese government appears to tacitly accept that it has problems with the enforcement of its labor laws. In 2008 and 2009, Vietnam's official news agencies—*Thanhniên* News, Vietnam Net, and Voice of Vietnam News—ran a series of reports in 2008 and 2009 describing problems with Vietnam's protection of worker's rights, the flaws of the VGCL, and efforts to improve working conditions in Vietnam.<sup>34</sup> A new Labour Code and Trade Union Law, drafted with assistance from the International Labor Organization (ILO), is expected to be submitted to Vietnam's National Assembly for consideration later in 2010.

## **The Vietnam Human Rights Act**

Since the 107<sup>th</sup> Congress, when Members of Congress became concerned with Vietnamese government crackdowns against protestors in the Central Highlands region, various legislative attempts have been made to link U.S. assistance to the human rights situation in Vietnam. A number of measures entitled "The Vietnam Human Rights Act" have been introduced, with most proposing to cap existing non-humanitarian U.S. assistance programs to the Vietnamese

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<sup>32</sup> Bureau of Democracy, Human Rights, and Labor, 2009 Country Reports on Human Rights Practices, 2009 Human Rights Reports: Vietnam, U.S. Department of State, Washington, DC, March 11, 2010.

<sup>33</sup> Human Rights Watch, *Not Yet a Workers' Paradise*, New York, NY, May 2009.

<sup>34</sup> Among these articles are: "Impotent Labour Unions Don't Help Workers," *Thanhniên* News, June 22, 2008; "Government Units to Tackle Labour Disputes," Vietnam Net, February 21, 2009; "Vietnam Works for Harmonious Labour Relations," Voice of Vietnam News, March 18, 2009; Minh Nam, "Flouting of Labor Laws Rife in HCMC: Report," *Thanhniên* News, December 2, 2008; and Minh Nam, "HCMC Officials call to Strengthen Unions, Tighten Labor Laws," *Thanhniên* News, February 12, 2009.

government at existing levels if the President does not certify that Vietnam is making “substantial progress” in human rights.<sup>35</sup>

As introduced, the most recent versions of the Vietnam Human Rights Act (H.R. 1969 and S. 1159 in the 111<sup>th</sup> Congress) are highly similar. Perhaps most significantly, they would prohibit Vietnam’s entry into the GSP program unless Vietnam’s labor rights regime is certified as making certain improvements. Both would prohibit increases in many forms of U.S. non-humanitarian assistance to Vietnam unless (1) such increases are matched by additional funding for human rights programming, and (2) Vietnam’s human rights conditions are certified as improving. The bills would grant the President waiver authority that allows him to exempt any programs that are deemed to promote the goals of the act and/or to be in the national interests of the United States. H.R. 1969 and S. 1159 would authorize the increase of Radio Free Asia’s anti-jamming funding, would require the submission of a stand-alone human rights report for Vietnam, and would call for the expansion of education, cultural, and legislative exchanges with Vietnam.

Proponents of the Vietnam Human Rights Act argue that additional pressure should be placed on the Vietnamese government to improve its human rights record. Critics have argued that the bill could chill the recent warming of bilateral political and security ties and could weaken economic reformers in ongoing domestic political battles inside Vietnam.

## **Refugees in Cambodia**

Since 2001, hundreds of Montagnards have crossed into Cambodia to escape continuing unrest in the Central Highlands region. In 2002, Cambodia accepted an offer from the United States to resettle the more than 900 Montagnards who remained following the 2001 protests and crackdown. More than 700 Montagnards have fled to Cambodia since then, particularly after a wave of unrest in April 2004. The United Nations High Commissioner for Refugees (UNHCR) has found the majority of the border-crossers to be political refugees and therefore entitled to asylum. While most of these are being resettled in the United States, Canada, or Finland, others have returned to Vietnam following a January 2005 agreement between UNHCR, Cambodia, and Vietnam in which Hanoi agreed that those returning to Vietnam would not be punished, discriminated against, or prosecuted for fleeing to Cambodia. Vietnam also agreed to drop its refusal to allow UNHCR to monitor the returnees’ well-being, though some human rights groups have criticized UNHCR’s monitoring visits, as well as its process for screening border crossers in Cambodia. More than 200 individuals, including many who have been recognized as refugees by UNHCR, refused offers to be resettled in third countries outside Southeast Asia. In the past, Cambodia has been accused of abiding by Vietnamese requests to close its borders and repatriate individuals forcibly.

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<sup>35</sup> The Vietnam Human Rights Act was first introduced in the 107<sup>th</sup> Congress as H.R. 2833, which was passed by the House, 410-1 (roll call 335) on September 6, 2001 and did not receive action in the Senate. In the 108<sup>th</sup> Congress, H.R. 1587/S. 2784 were introduced. House passed H.R. 1587 by a vote of 323-45 (roll call 391). In the Senate, the bill was not reported out of committee, and attempts to include an abbreviated version in an omnibus appropriation bill did not succeed. In the 109<sup>th</sup> Congress, another stripped-down version of the act (H.R. 3190) was included in the House-passed version of the Foreign Relations Authorization Act of FY2006/FY2007 (H.R. 2601), which did not receive action in the Senate. In the 110<sup>th</sup> Congress, the House passed H.R. 3096 on September 18, 2007 (414-3, roll no. 877). The bill did not see action in the Senate. Also in the 110<sup>th</sup>, a competing version of the Vietnam Human Rights Act, S. 3678, was introduced in the Senate.



In May 2007, the United States adopted a new policy toward the Montagnards in Cambodia, in which individuals UNHCR deems not to be refugees will not be considered for resettlement in the United States. The move appeared to indicate the United States' official acceptance that Vietnam was honoring its commitments in the January 2005 tripartite agreement. In the year following the policy shift, the United States accepted approximately 100 Montagnards for resettlement.

## **Human Trafficking**

Vietnam is both a source and destination for people trafficked for forced labor and commercial sexual exploitation. Additionally, state-owned and private labor export companies send tens of thousands of Vietnamese construction, fishing, and manufacturing workers overseas, where many are vulnerable to abuse and/or exploitation. In June 2009, the State Department issued its 9<sup>th</sup> annual report on human trafficking, *Trafficking in Persons Report*. Vietnam was listed as a "Tier 2" country that "does not fully comply with the minimum standards for the elimination of trafficking." As recently as 2004, it was included on the "Tier 2 Watch-list," but was upgraded to "Tier 2" in the 2005 report. The 2009 report estimated that there are 500,000 Vietnamese workers outside of Vietnam. It judged the government to be making "significant efforts" to combat trafficking, particularly the cross-border sex trade. However, the report criticized the Vietnamese government for an insufficient focus on domestic trafficking, law enforcement, victim protection, and safeguards on officially sanctioned export labor programs.<sup>36</sup>

## **Security Issues**

### ***Military-to-Military Ties***

Since the United States and Vietnam normalized relations in the mid-1990s, a growing perception of shared strategic interests has compelled and enabled the two countries' militaries to cautiously establish and expand ties with one another.<sup>37</sup> Vietnamese concerns about rising Chinese power in the region appear have made Vietnamese policy-makers, particularly civilian leaders, interested in upgrading their security relations with the United States. However, the process of deepening military-to-military cooperation has been slow and incremental, with the United States generally suggesting that more be done, and the Vietnamese side responding cautiously.<sup>38</sup>

In the 1990s, the bulk of military-to-military cooperation consisted of programs dealing with "legacy" issues from the Vietnam War era. The two militaries developed an increasingly cooperative relationship in locating the remains of U.S. missing servicemen.<sup>39</sup> By the late 1990s, a substantial permanent U.S. staff in Vietnam was deeply involved in frequent searches of aircraft crash sites and discussions with local Vietnamese witnesses throughout the country. The U.S. Defense Department reciprocated by allowing Vietnamese officials access to U.S. records and maps to assist their search for Vietnamese MIAs. Additionally, the United States spent millions of

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<sup>36</sup> State Department, *Trafficking in Persons Report*, June 2009.

<sup>37</sup> For more on the evolution of bilateral military ties, see Lewis M. Stern, "U.S.-Vietnam Defense Relations: Deepening Ties, Adding Relevance," *Strategic Forum*, no. 246 (September 2009).

<sup>38</sup> Stern, "U.S.-Vietnam Defense Relations;" Carlyle A. Thayer, "Background Briefing: Vietnam's Defence Minister Visits Washington," December 18, 2009, Thayer Consultancy, ABN # 65 648 097 123.

<sup>39</sup> Officially, more than 2,000 Americans who served in Indochina during the Vietnam War era are still unaccounted for. Hundreds of thousands of Vietnamese remain missing.

dollars annually in demining assistance in Vietnam, through the State Department's NADR account, which includes non-proliferation, counterterrorism, demining, and related activities. The United States continues to fund many of these demining programs in Vietnam.

Since at least the early 2000s, the Pentagon and State Department have sought to expand and deepen security relations and military ties with Vietnam. A decade later, many of these efforts have borne fruit, albeit slowly and incrementally. Perhaps most dramatically, in 2005 the two countries signed an IMET agreement, which reportedly had been blocked for years by the Vietnamese military, allowing Vietnamese officers to receive English language training in the United States. FY2009 funding for IMET was \$195,000, with \$300,000 requested in the FY2010 budget. The Defense Department plans to request approximately \$525,000 for IMET programs with Vietnam in FY2011.<sup>40</sup>

In 2007, the United States modified International Traffic in Arms Regulations (ITAR) regarding Vietnam by allowing licenses for trade in certain non-lethal defense items and services to Vietnam. Such transactions are reviewed on a case-by-case basis. In FY2009, the United States provided foreign military financing (FMF) for Vietnam for the first time. \$500,000 was made available in that fiscal year, with another \$1.35 million requested in FY2010. The Obama Administration requested \$1.1 million in FMF for Vietnam in FY2011.<sup>41</sup>

Additionally, U.S. naval vessels now regularly call on Vietnamese ports, and Vietnamese military officers increasingly participate in U.S.-led conferences and academic programs. Joint counter-narcotics training programs also have been established. The military-to-military relationship has developed a multilateral dimension, in part due to Vietnam's policy of seeking a more visible role in international organizations.<sup>42</sup>

### *Security Dialogue*

In 2008, the United States and Vietnam initiated a formal Security Dialogue on Political, Security, and Defense Issues, a civilian-led forum that includes military officials in both countries. Two annual meetings have been held. According to press releases and U.S. participants in the talks, the most substantive issues appear to have been expanding cooperation in peacekeeping operations and training, humanitarian assistance and disaster relief, including search and rescue operations and training. As a symbol of the relatively small-scale and incremental areas of improvement, one of the deliverable items from the September 2009 in Hanoi meeting was that Vietnam agreed to send a higher-level observer to the next Garuda Shield capstone training exercise for the Global Peace Operations Initiative (GPOI), to be held in Indonesia. Other topics of discussion included maritime security, counterterrorism and counternarcotics cooperation, border security, nonproliferation, and exchanges of high-level visits.<sup>43</sup> The Vietnamese military reportedly has asked the United States to supply spare parts for its American-made Huey helicopters that are leftovers from the Vietnam War.

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<sup>40</sup> January 2010 e-mail exchange with Defense Department official.

<sup>41</sup> January 2010 e-mail exchange with Defense Department official.

<sup>42</sup> For instance, in 2008-2009, Vietnam occupied one of the Asia region's non-permanent seats on the United Nations Security Council. In 2010, Vietnam holds the chair of the Association of Southeast Asian Nations (ASEAN).

<sup>43</sup> State Department Press Release, "Joint Statement on U.S.-Vietnam Political, Security and Defense Dialogue," June 8, 2009; June 2009 exchanges with U.S. participants.

Thus far, the U.S. emphasis in the dialogue appears to have been on *process* rather than results. State and Defense Department officials generally have viewed the dialogue as an opportunity to engage with senior level Vietnamese officials (i.e., decision-makers) and to spur more cooperation and communication among Vietnamese ministries, which are often “stove-piped” into self-contained policy communities. In particular, many U.S. government and other observers have expressed the hope that the Vietnamese Ministry of Foreign Affairs might encourage the more cautious Ministry of Defense and Ministry of Public Security to expand Vietnam’s relations with the U.S. and other countries’ militaries.

## Vietnam War “Legacy” Issues

### Agent Orange<sup>44</sup>

Vietnamese leaders have pressed the United States for assistance in cleaning up the dioxin left from the spraying of Agent Orange during the Vietnam War, as well as providing medical care for the estimated 3-5 million Vietnamese dioxin “victims.” Among the Vietnamese public, Agent Orange perhaps has become the biggest problem facing the two countries.<sup>45</sup> Many Vietnamese see some inconsistencies between the U.S. government’s reluctance to provide aid to Vietnamese victims of Agent Orange and its support programs for U.S. veterans who claim their medical problems are Agent Orange related.<sup>46</sup>

Although the United States has resisted providing medical assistance to the alleged Vietnamese “victims” of Agent Orange, since the middle of the decade it has indicated a willingness to help with the containment and removal of the residual dioxin, especially in identified “hot spots” near former U.S. military bases. According to the State Department, U.S. assistance to victims of land mines over the years has included \$2 million in funding for Agent Orange related projects. The Iraq Accountability Appropriations Act of 2007 (H.R. 2206/P.L. 110-28), signed into law by President Bush in May 2007, appropriated \$3 million for assistance to Vietnam for environmental remediation of dioxin storage sites and to support health programs in communities near those sites, particularly at the former U.S. airbase at Da Nang. In 2009, the 111<sup>th</sup> Congress twice appropriated \$3 million for cleaning up dioxin contaminated sites in Vietnam.<sup>47</sup> On May 15, 2008, and June 4, 2009, the House Subcommittee on Asia, the Pacific, and the Global Environment held hearings on the issue of dioxin/Agent Orange in Vietnam.

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<sup>44</sup> For more on the Agent Orange issue, see CRS Report RL34761, *Vietnamese Victims of Agent Orange and U.S.-Vietnam Relations*, by Michael F. Martin.

<sup>45</sup> State Department Office of Research, *Vietnam: U.S. Image Gets a Boost*, Opinion Analysis, Washington, DC, September 9, 2008.

<sup>46</sup> For more information about the U.S. assistance programs for U.S. veterans with medical problems associated with exposure to Agent Orange, see CRS Report RL34370, *Veterans Affairs: Health Care and Benefits for Veterans Exposed to Agent Orange*, by Sidath Viranga Panangala and Douglas Reid Weimer.

<sup>47</sup> In the Omnibus Appropriations Act of 2009 (P.L. 111-8), the 111<sup>th</sup> Congress appropriated an \$3 million “to continue environmental remediation of dioxin contamination at the Da Nang Airport and related health activities in nearby communities in Vietnam.” In the FY2010 Consolidated Appropriations Act (P.L. 111-117), Congress also appropriated \$3 million for cleaning up dioxin contaminated sites in Vietnam.

## **Vietnam War Resettlement Programs**

In November 2005, the United States and Vietnam announced the reopening of certain categories of the Orderly Departure Program (ODP), under which over 550,000 Vietnamese were resettled in the United States between 1979 and 1999. Also during this time, another 300,000 Vietnamese came to the United States through other programs. The latest reopening is limited to those who were unable to apply or who were unable to complete the application process before the ODP closed in 1994. The omnibus Consolidated Appropriations Act, 2008 (H.R. 2764), which President Bush signed into law on December 26, 2007, extended the application closing date from the end of 2007 to the end of 2009. On a related matter, Section 7034(d) of P.L. 111-8, the Omnibus Appropriations Act of FY2009, which was signed into law on March 11, 2009, extended to the end of 2010 the deadline for certain adult sons and daughters of former Vietnamese re-education camp detainees who wish to apply for resettlement into the United States. The previous closing date had been September 30, 2009.

## **POW/MIA Issues<sup>48</sup>**

Since the 1990s, the annual State Department appropriations act has included language prohibiting the use of funds to expand the United States diplomatic presence in Vietnam beyond the level in effect July 11, 1995 (when the two countries opened embassies in each others' capitols), unless the President makes a certification that several conditions have been met regarding Vietnam's cooperation with the United States on Prisoner of War/Missing in Action (POW/MIA) issues. That certification has been issued every year since the requirement was put in place, though President Bush listed specific steps for how cooperation could be improved.

Officially, more than 2,000 Americans who served in Indochina during the Vietnam War era are still unaccounted for.<sup>49</sup> Hundreds of thousands of Vietnamese remain missing. From 1975 through the late 1990s, obtaining a full accounting of the U.S. POW/MIA cases was one of the dominant issues in bilateral relations. Beginning in the early 1990s, cooperation between the two sides increased. By 1998, a substantial permanent U.S. staff in Vietnam was deeply involved in frequent searches of aircraft crash sites and discussions with local Vietnamese witnesses throughout the country. The Vietnamese authorities also have allowed U.S. analysts access to numerous POW/MIA-related archives and records. The U.S. Defense Department has reciprocated by allowing Vietnamese officials access to U.S. records and maps to assist their search for Vietnamese MIAs, a topic that continues to be of interest to the Vietnamese government. The increased efforts have led to substantial understanding about the fate of several hundred U.S. POW/MIA cases, though the United States continues to press Vietnam to provide more cooperation in specific areas. During Secretary of Defense Rumsfeld's June 2006 trip to Vietnam, the two countries discussed expanding their cooperation on recovering remains, including the possibility of using more advanced technology to locate, recover, and identify remains located under water.<sup>50</sup> Congress continues to take an interest in the POW/MIA issue.<sup>51</sup>

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<sup>48</sup> For more on the POW/MIA issue, see CRS Report RL33452, *POWs and MIAs: Status and Accounting Issues*, by Charles A. Henning.

<sup>49</sup> Official U.S. policy does not remove a name from the rolls of those unaccounted for unless remains are identified.

<sup>50</sup> Office of the Assistant Secretary of Defense (Public Affairs), "Press Availability with Secretary Rumsfeld in Vietnam," June 5, 2006.

<sup>51</sup> For instance, in February 2009, H.Res. 111 (King, R-NY) was introduced. It would establish a Select Committee on POW and MIA Affairs to conduct a full investigation of all unresolved matters relating to any United States personnel (continued...)

## Conditions in Vietnam

For the first decade after reunification in 1975, Vietnamese leaders placed a high priority on ideological purity and rigid government controls. By the mid-1980s, disastrous economic conditions and diplomatic isolation led the country to adopt a more pragmatic line, enshrined in the *doi moi* (renovation) economic reforms of 1986. Under *doi moi*, the government gave farmers greater control over what they produce, abandoned many aspects of central state planning, cut subsidies to state enterprises, reformed the price system, and opened the country to foreign direct investment (FDI). After stalling somewhat in the late 1990s, economic reforms were accelerated in the early 2000s, as Vietnam made sweeping changes that were necessary to enter the WTO. Politically and socially, the country became much less repressive, even tolerating some expressions of dissent in certain areas that had been considered sensitive.

Beginning in 2008, there were some signs that the consensus around pursuing an open market liberalization strategy had begun to fray, as more conservative-minded forces began to push against reformist elements. Vietnam's economic troubles in 2008 and 2009 may have contributed to this possible shift in policy momentum.

## Economic Developments

### Vietnam's Economic Troubles of 2007-2009

Since late 2007, Vietnam's economy has been buffeted by economic difficulties that have increased social strife and raised concerns about the country's economic stability. In 2007 and the first half of 2008, the country experienced first soaring inflation and then acute, downward pressure on the country's currency, the dong. The problems caused by inflation were particularly onerous, as the prices of some food items rose by over 50%, leading workers in a number of factories to go on strike demanding higher wages. By late 2008, the rapid increase in the inflation rate had halted, allowing the government to shift its priority to spurring growth as the global financial crisis' effects began to hit Vietnam.

Although restrictions on international financial transactions limited Vietnam's direct exposure to the global financial and credit crises, the secondary effects created new pressures on Vietnam, which is heavily dependent on trade and foreign direct investment inflows. In response to the crisis, Hanoi lowered corporate tax rates, cut interest rates, allowed the *dong* to depreciate against the U.S. dollar, and unveiled a stimulus package that the International Monetary Fund estimated to be worth roughly \$4 billion. Some selected figures illustrate Vietnam's vulnerability to the global slowdown and collapse in commodity prices: exports are equivalent to 80% of GDP; about 60% of Vietnamese exports go to the United States, the European Union, and Japan; and oil revenue accounts for 30% of the government's revenue.<sup>52</sup> In 2009, Vietnam's exports fell by

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(...continued)

unaccounted for from the Vietnam War and several other conflicts. In the 110<sup>th</sup> Congress, on July 10, 2008, the House Armed Service Subcommittee on Military Personnel held a hearing on oversight and the status of POW/MIA activities. Additionally, in May 2008, the House passed H.Res. 986 (roll no. 366), stating that the House "will not forget" and "will continue to press for a full accounting of" U.S. military and civilian personnel who remain unaccounted for from the Vietnam conflict.

<sup>52</sup> Economist Intelligence Unit, *Vietnam Country Report*, May 2008.



around 10% compared with 2008 levels, and its imports decreased by around 13%. However, like many Asian developing countries, Vietnam's economy avoided some of the harsher effects of the slowdown; nominal GDP growth for 2009 as a whole is estimated to be just over 5%, down about a percentage point from 2008.<sup>53</sup>

Nonetheless, GDP growth of 7% is a key threshold in the minds of many Vietnamese policymakers for creating the jobs necessary for the VCP and the government to maintain social stability. Thus, compared to the 8% growth rates Vietnam experienced for much of the 2000s, 2008 and 2009 may have felt like a recession to many in Vietnam. Compounding the challenge of whether to prioritize spurring growth or fighting inflation prices are reports that some authorities fear the recurrence of the latter.<sup>54</sup>

## **Background**

During the twenty five years since the *doi moi* reforms were launched, Vietnam was one of the world's fastest-growing countries. Agricultural production has soared, transforming Vietnam from a net food importer into the world's second-largest exporter of rice and the second-largest producer of coffee. The move away from a command economy also helped reduce poverty levels from 58% of the population in 1992 to less than 30% in 2002, and the government has set a goal of becoming a middle-income country by 2020. A substantial portion of the country's growth was driven by foreign investment.

Economic growth and the reform movement, however, have not always advanced smoothly. In the mid-1990s, the momentum behind continued economic reforms stalled, as disagreement between reformers and conservatives paralyzed economic decision-making. The economy slowed markedly after the 1997 Asian financial crisis, as real GDP growth fell to less than 5% in 1999. The decision in 2000 to sign the BTA with the United States appears to have broken the policymaking logjam by fashioning a new reformist consensus that was effectively endorsed by leadership changes in the 2001, during the VCP's 9<sup>th</sup> Party Congress. After signing the BTA, the government enacted a series of measures, including passing a new Enterprise Law, passing a constitutional amendment giving legal status to the private sector, reducing red tape, and creating unprecedented transparency rules requiring the publication of many types of new rules and regulations before they are implemented. Adhering to the BTA's implementation deadlines and achieving the government's goal of joining the WTO have helped galvanize the Vietnamese bureaucracy toward implementing many of these steps. Demographic pressure is a major impetus for the renewed emphasis on economic reforms; with more than half of the population under the age of 25, Vietnamese leaders must find a way to provide jobs for an estimated 1 million new entrants to the workforce annually.

Rapid growth has transformed Vietnam's economy, which has come to be loosely divided into three sectors: the state-owned, the foreign-invested, and the privately-owned, which make up roughly 50%, 30%, and 20% of industrial output, respectively. For much of the 1990s, Vietnam's foreign-invested enterprises (FIEs) were among the country's most dynamic. Since the 1997 Asian financial crisis, the private sector has also made impressive gains, to the point where domestically-owned private firms employ around a quarter of the workforce.

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<sup>53</sup> General Statistics Office of Vietnam Press Release, "2009 Socio-Economic Statistical Data," January 5, 2010.

<sup>54</sup> Ibid.

Despite the impressive macroeconomic advances, Vietnam remains a poor country; the World Bank in 2005 estimated that about one-third of Vietnamese children under five years of age suffered from malnutrition.<sup>55</sup> Per capita GDP in 2009 was just under \$3,000 when measured on a purchasing power parity basis.<sup>56</sup> Economists point to Vietnam's failure to tackle its remaining structural economic problems—including unprofitable state-owned enterprises (SOEs), a weak banking sector, massive red tape, and bureaucratic corruption—as major impediments to continued growth. Some economists criticized the government's latest five year development plan, issued in 2005, that focuses on the development of heavy industries such as electricity, energy, steel, and mining. The previous plan emphasized lighter industries such as foodstuffs, textiles, and electronics. According to some sources, many if not most of Vietnam's SOEs are functionally bankrupt, and require significant government subsidies and assistance to continue operating. Although more than 2,500 SOEs officially have been partially privatized since 1990 under the government's "equitization" program, most of these are small and medium-sized firms, and the government still owns substantial stakes in them. Other SOE reform measures are being discussed.

### **Controversial Bauxite Plan for Central Highlands**

In the spring of 2009, the Vietnamese government announced that state-run Vietnam National Coal & Mineral Industries Group was forming a \$460 million joint venture with Aluminum Corp. of China Ltd to mine bauxite in Vietnam's Central Highlands.<sup>57</sup> The venture appears to be part of a larger Vietnamese government plan to dramatically expand the exploitation of the Highlands' bauxite reserves, which reportedly contains the world's third-largest reserve of the ore. Bauxite is used as a raw material to make aluminum.

Inside Vietnam, the announcement has triggered opposition. Criticism has focused on the project's expected environmental impact, on fears of increased Chinese influence, and on worries that ethnic minorities and local industries (such as coffee plantations) would be adversely affected. The campaign against the project appears to have brought together a disparate group of critics, including 97-year-old General Vo Nguyen Giap, the military leader of North Vietnamese forces against France, South Vietnam, and the United States from the 1940s through the 1970s.<sup>58</sup>

## **Political Trends**

### **The 2011 Vietnamese Communist Party Congress**

Political jockeying has begun to influence the outcomes of the VCP's 11<sup>th</sup> National Congress, which is to be held in 2011. Party Congresses, held every five years, are often occasions for major leadership realignments and set the direction for Vietnam's economic, diplomatic, and social policies. During the Congresses, delegates elect a new Central Committee, which in turn elects the Politburo and (from among the Politburo members) a general secretary for the VCP. Both the

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<sup>55</sup> World Bank, "Vietnam at a Glance," September 12, 2005.

<sup>56</sup> Central Intelligence Agency, *World Factbook*, April 1, 2010.

<sup>57</sup> James Hookway, "Once Enemies, Vietnam Now Fights for China Funds," *Asia Wall Street Journal*, May 2, 2009.

<sup>58</sup> Seth Mydans, "Lion of War Retakes Field in Mine Fight," *International Herald Tribune*, June 29, 2009.

jockeying for and the actual event itself are secretive affairs, making it difficult to make informed speculation about their outcomes, particularly before they occur.

The last Party Congress, held in 2006, reportedly resulted in few if any major changes to country's general policy direction of continuing market reforms and integrating into the global economy. This was despite a relatively large turnover in the Politburo, which saw nine of its 15 members retire. Many observers interpreted this as an indication that the economic reformers remained in the ascendancy, a position they had enjoyed since they had beat back conservative voices in the 9<sup>th</sup> Party Congress of 2001.

In contrast, it appears that the 11<sup>th</sup> National Congress could prove to be a more consequential event. Among other moves, Vietnam's most important post, the VCP General Secretary, is expected to become vacant as its current occupant, Nong Duc Manh (71 years old), is completing his second consecutive five-year term. Also likely to step down is Vietnam's President, Nguyen Minh Triet (68), who is reportedly ill. There are also persistent rumors that Prime Minister Nguyen Tan Dung may step down.<sup>59</sup> Other seats on the supreme decision-making body, the Politburo, are also expected to become open if the VCP enforces its policy of retiring older members (generally, those over 70) in favor of bringing relatively younger officials into positions of power.

Moreover, for the past few years, there have been signs of divisions among the VCP's leadership. There generally are two interpretations of these battles.

One view is that the current internal wrangling is based more upon individual quests for power more than disagreements over policy or ideology. Much attention will likely be paid to whether Dung and his two allies, deputy prime ministers Hoang Trung Hai and Nguyen Thien Nhan, retain their posts, lose their jobs, or are even promoted. Another area of attention will be who replaces Party Secretary Manh. Western analysts speculate that there are a number of possible candidates to succeed Manh, including Truong Tan Sang (61 years old), head of the VCP Secretariat; Nguyen Phu Trong (69), President of the National Assembly; Le Hong Anh, the Minister of Public Security (61); Ho Duc Viet (63), the head of VCP personnel and organization; Pham Quang Nghi (61), Secretary of the Hanoi Party Committee; and Nguyen Van Chi (65), Chairman of the Party's Inspectorate Commission

The second view, which does not necessarily contradict the first, is that the struggles are ideological battles between "reformers" and "conservatives." Some Vietnam watchers have argued that since at least 2008, Prime Minister Dung and other reportedly reform-minded leaders may be losing ground to more conservative-minded officials. The "reformers" are believed to be more tolerant of criticism of the government and of relaxing government controls over the media. "Conservatives" appear to be more worried about preserving the VCP's authority and therefore are commonly thought to be more eager to stamp down on criticism. The continuing crackdown on dissent appears to indicate that on the political front the conservatives have gained the momentum. According to one prominent Western Vietnam-watcher, the conservatives have tried to link internal dissent to a "plot of peaceful evolution" involving hostile foreign forces.<sup>60</sup>

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<sup>59</sup> Carlyle Thayer, "Background Briefing: Vietnam Party Leadership and the 12<sup>th</sup> Plenum," March 22, 2010; Carlyle Thayer, "Background Briefing: Vietnam Party Leadership Follow Up," March 27, 2010; both available at <http://www.scribd.com>. See also Economist Intelligence Unit, *Vietnam Country Report*, June 2010.

<sup>60</sup> Carlyle Thayer, "Background Briefing: Vietnam's Political Dynamics in Advance of the 11<sup>th</sup> Congress," February 7, (continued...)



On economic matters, the “reformers” generally are associated with technocratic, market-oriented actions such as continuing the process of selling government stakes in state-owned enterprises (SOEs) and rolling back the economic stimulus packages that were unveiled in late 2008 and 2009 to combat the global recession. In contrast, some observers link “conservatives” to efforts to continue government spending and loosen credit policies, as a way to continue to provide state assistance to the SOE sector of the economy.

## **Vietnam’s Political Structure**

In general, Vietnam’s experiments with political reform have lagged behind its economic changes. A new constitution promulgated in 1992, for instance, reaffirmed the central role of the VCP in politics and society, and Vietnam remains a one-party state. In practice, the Communist Party sets the general direction for policy while the details of implementation generally are left to the four lesser pillars of the Vietnamese polity: the state bureaucracy, the legislature (the National Assembly), the Vietnamese People’s Army (VPA), and the officially sanctioned associations and organizations that exist under the Vietnamese Fatherland Front umbrella.

The Party’s major decision-making bodies are the Central Committee, which has 150 members, and the Politburo, which in recent years has had 15 members. Membership on the Politburo generally is decided based upon maintaining a rough geographic (north, south, and central) and factional (conservatives and reformers) balance. The three top leadership posts are, in order of influence, the VCP General Secretary, followed by the Prime Minister, and the President. Since the death in 1986 of Vietnam’s last “strong man,” Le Duan, decision-making on major policy issues typically has been arrived at through consensus within the Politburo, a practice that often leads to protracted delays on contentious issues.

## **The National Assembly<sup>61</sup>**

Over the past 10 years, Vietnam’s legislative organ, the National Assembly, has slowly and subtly increased its influence to the point where it is no longer a rubber stamp. In recent years the Assembly has vetoed Cabinet appointments, forced the government to revise major commercial legislation, and successfully demanded an increase in its powers. These include the right to review each line of the government’s budget, the right to hold no-confidence votes against the government, and the right to dismiss the president and prime minister (though not the VCP general secretary).

During its 7<sup>th</sup> session held in June 2010, the National Assembly amended several bills introduced by various Ministries (including a controversial law on mining), and questioned the merits of plans to build a high-speed passenger rail line from Hanoi to Ho Chi Minh City. On June 19, 2010, the Vietnamese National Assembly (VNA) voted to reject a resolution to build a high speed rail connecting Hanoi and Ho Chi Minh City. The project is estimated to cost \$56 billion dollars (USD), approximately 60.5% of Vietnam’s GDP in 2009. Prime Minister Nguyen Tan Dung

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2010, available at <http://www.scribd.com>.

<sup>61</sup> CRS Research Associate Lam Van Phan contributed to this section.

supported the project as a necessary investment in the infrastructure of the country. It is unclear whether this is an exercise in power by an increasingly independent National Assembly or whether it is a public expression resulting from internal political maneuverings between the conservative and reformist elements within the Vietnamese Communist Party.

It remains to be seen how much influence the Assembly will ultimately have over policymaking, given the VCP's dominant role and the centralization of decision-making in Vietnam. More than 85% of parliamentarians are Party members, and the VCP carefully screens all candidates before elections are held. Moreover, the Communist Party and the central government generally have *encouraged* the National Assembly's evolution into a more robust body, to help create the legal system and culture most Vietnamese leaders feel are necessary to support a modern, middle-income state.

## **Sino-Vietnam Relations**

Since the late 1990s, when China began espousing its "new security concept" of cooperation with its neighbors, improvements in Sino-Vietnamese relations have accelerated, most notably with the signings of a land border treaty in 1999 and a sea border treaty for the Gulf of Tonkin in 2000. For Vietnamese leaders, this process has been fraught with ambivalence. On the one hand, maintaining stable, friendly relations with its northern neighbor is critical for Vietnam's economic development and security, and Hanoi does not undertake large-scale diplomatic moves without first calculating Beijing's likely reaction. China's ruling Communist Party is an ideological bedfellow, as well as a role model for a country that seeks to marketize its economy without threatening the Communist Party's dominance. China also is Vietnam's largest trading partner.

On the other hand, many Vietnamese are wary of China's increased influence in Southeast Asia. Beijing's outreach to Cambodia and Laos in recent years has rekindled internal battles between pro-Hanoi and pro-Beijing camps in both countries, and has spurred counter-moves by Hanoi. Vietnam and China still have overlapping claims to the Spratly Island chain in the South China Sea, differences that led to military clashes in the late 1980s. In 2002, ASEAN and China signed a Declaration on the Conduct of Parties in the South China Sea, a non-binding agreement to resolve disputes diplomatically, exercise restraint, and respect the freedom of navigation and overflight. Significantly, Vietnam did not succeed in its efforts to have the agreement specifically include the Paracel Islands, claimed by both Vietnam and China. Instead, the declaration is vague on its geographic scope. Like other countries in the dispute, Vietnam has continued to expand its presence in the island chain. China also represents an economic rival, as both countries compete for foreign direct investment and for markets in many of the same low-cost manufacturing products. Vietnamese leaders periodically express concern about Vietnam's rising trade deficit with China, which was around \$11 billion in 2009. Many Vietnamese worry that China is increasing its economic influence over and within Vietnam, as shown by the criticisms that followed the spring 2009 announcement of a bauxite mining joint venture between a Vietnamese and Chinese entity (See "Controversial Bauxite Plan for Central Highlands," above).

Events over the last two years reflect the conflicting dynamics in Sino-Vietnamese relations. In late May 2008, VCP General Secretary Manh made a four-day visit to China. In October, Prime Minister Dung made a week-long trip. In March 2009, Chinese state councilor Dai Bingguo visited Vietnam. The summitry and meetings led to agreements to set up a hotline, to complete the demarcation of their land border (a task that was accomplished in late December 2008), and Beijing's pledge to provide a \$300 million line of preferential credit for Vietnam.

However, as discussed above (see “Sino-Vietnamese Relations”), Hanoi and Beijing continue to deal with resurfacing disputes over the Paracel and Spratly Islands. Most notably, in December 2007, the Vietnamese government allowed anti-Chinese demonstrations outside the Chinese embassy in Hanoi and consulate in Ho Chi Minh City. The protestors were angered by reports that Beijing had created a new municipality in Hainan Province that would have jurisdiction over three islets claimed by Vietnam. China also has warned international oil companies—including ExxonMobil—against fulfilling contracts to participate in Vietnamese exploration projects in or near the disputed waters.

## **The Environment**

In climate modeling exercises, Vietnam is often listed as one of the world’s most vulnerable countries to the possible effects of climate change, due among other factors to its climate, long coastline, and topography (particularly the extent of low-lying coastal areas with high population concentrations). Rising sea levels, increased frequency and intensity of storms, as well as drought and salt-water intrusion could have a severe impact on the country, particularly its poorer communities. Additionally, the flow of the Mekong River, which reaches its terminus in Vietnam, is being affected by the extensive damming of the river’s upper reaches. In China, four dams have been built along the Lancang (as the Mekong is called in China) and four more are planned. Nine additional dams along the Mekong are planned in Laos and two in Cambodia.

For a number of reasons, Vietnam is considered ripe for developing projects to adapt to anticipated climatic changes. Many organs of the Vietnamese government appear to have recognized and gathered data on the problems that could arise from climate change, and Vietnam has reached out to the international community for advice and assistance. According to information provided by the U.S. Agency for International Development, from the early 1990s through 2009 the United States spent a cumulative total of around \$7 million-\$10 million for environmental programs, including those directly related to climate change issues.

Despite the steps Vietnam has taken, it is not clear to what extent the country has reconciled expected environmental changes with its overriding domestic priority: achieving its goal of becoming a middle-income economy by 2020. Additionally, while many *governmental* institutions have begun to incorporate climate change’s effects into their planning, it is unclear to what extent this has been done by the *Vietnamese Communist Party*, the institution that sets Vietnam’s broad policy priorities.

## **Selected Legislation in the 111<sup>th</sup> Congress**

**H.Res. 20 (Royce).** Calls on the State Department to list the Socialist Republic of Vietnam as a “Country of Particular Concern” with respect to religious freedom. Introduced January 6, 2009. Referred to House Foreign Affairs Committee.

**H.Res. 111 (Peter King).** Establishes a Select Committee on POW and MIA Affairs to conduct a full investigation of all unresolved matters relating to any United States personnel unaccounted for from the Vietnam War and several other conflicts. Introduced February 3, 2009. Referred to House Rules Committee.

**H.Res. 334 (Loretta Sanchez).** Calls on the Government of Vietnam to release from prison, end the detention without trial, and cease the harassment and house arrest of the individuals who

signed the 2006 Manifesto on Freedom and Democracy for Vietnam. Calls on the Secretary of State to establish a Countries of Particular Concern list to condemn countries like that engage in “particularly severe violations” of human rights. Introduced April 21, 2009. Referred to House Foreign Affairs Committee.

**H.Res. 672 (Loretta Sanchez).** Calls on the Vietnamese government to release specific imprisoned bloggers and respect Internet freedom. Introduced July 23, 2009; passed by House October 21, 2009, by voice vote.

**H.R. 1105 (Obey).** Omnibus Appropriations Act, 2009. Appropriated an additional \$3 million “to continue environmental remediation of dioxin contamination at the Da Nang Airport and related health activities in nearby communities in Vietnam. Introduced February 23, 2009; signed into law March 11, 2009 (P.L. 111-8).

**H.R. 1969 (C. Smith) and S. 1159 (Boxer).** Vietnam Human Rights Acts of 2009. Both bills prohibit Vietnam’s entry into the GSP program unless Vietnam’s labor rights regime is certified as making certain improvements; and prohibit increases in many forms of U.S. non-humanitarian assistance to Vietnam unless (a) such increases are matched by additional funding for human rights programming, (b) Vietnam’s human rights conditions are certified as improving, or (c) the President issues a waiver. House bill introduced April 2, 2009, and referred to House Foreign Affairs Committee and Ways and Means Committees. Senate bill introduced May 21, 2009, and referred to Senate Foreign Relations Committee.

**H.R. 2410 (Berman).** Foreign Relations Authorization Act, FY2010 and 2011. Section 226 transfers the Vietnam Education Foundation to the Department of State. Section 1126 states that it is the sense of Congress that the Secretary of State should place Vietnam on the list of “Countries of Particular Concern” for severe violations of religious freedom. Introduced May 14, 2009. The House passed the bill on June 10 by a vote of 235 - 187 (Roll no. 328); referred to Senate Foreign Relations Committee.

**H.R. 3288/P.L. 111-117 (Olver).** FY2010 Consolidated Appropriations Act. Among other items, the bill provides \$17.5 million for locating Vietnamese missing since the end of the Vietnam War, \$3.5 million for removing unexploded land mines in Vietnam, \$3 million for cleaning up dioxin contaminated sites in Vietnam and assisting people in affected areas, \$2 million in budget authority for foreign military financing for Vietnam, and \$400,000 in International Military Education Training (IMET) funding for Vietnam. The House passed the Conference Committee report, December 10, 2009, 221-202, 1 Present (Roll no. 949); the Senate agreed to the Conference report on December 13, 2009, 57-35 (Record Vote no. 374); the President signed the bill on December 16, 2009.

**S. 3104 (Lugar).** A bill to permanently authorize Radio Free Asia. Introduced March 11, 2010; referred to Senate Foreign Relations Committee.

Figure 2. Map of Vietnam



Source: CRS.

## **Author Contact Information**

Mark E. Manyin  
Specialist in Asian Affairs  
mmanyin@crs.loc.gov, 7-7653